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Approved For Release 2001/08/28 : CIA-RDP67-00059A000200200043-0

## SITUATION IN CHINA

### Summary

The Chinese Government appears incapable of materially checking present trends toward increasing instability and extension of Chinese Communist military and political influence, unless that Government carries out substantial internal reforms and receives large-scale foreign aid. Its ability to effect such reforms is doubted, but without them, the effectiveness of any foreign aid is also questionable.

Deterioration of the Chinese Government will probably accelerate and may within a year lead to disintegration, or to decisive military successes for the Communists. In either event, however, effective consolidation of Communist control will be impeded by political and economic disorganization.

The USSR, although ideologically affiliated with the Chinese Communists, is unlikely to take a more active role in China unless US support of the National Government tended to reverse present trends. In this event, the USSR would probably intensify its activities along China's northern frontier and in support of the Chinese Communists, which in turn might result in an ascending spiral of support and counter-support by the US and the USSR, and a heightening of US-Soviet tension.

CENTRAL INTELLIGENCE AGENCY  
OFFICE OF REPORTS AND ESTIMATES

31 October 1947

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#### SITUATION IN CHINA

1. Present trends in China are in the direction of increasing instability and extension of Chinese Communist military and political influence. Deterioration of the National Government will probably accelerate and may within a year's time lead to its disintegration, or to decisive military successes for the Chinese Communists. The Chinese National Government, without substantial foreign assistance, has little prospect of reversing or even materially checking these trends, because of its declining military strength, the maladministration and corruption prevalent throughout the Government's civil and military structure, its inability to cope with economic deterioration, and its lack of popular support. Scarcely any positive factors are operating to promote the stability of the National Government other than (a) hope of economic and military assistance from the US, and (b) promise of substantial internal reforms, but there is considerable doubt that the present Government can or will accomplish the latter. Without such reforms, moreover, it is extremely questionable whether any reasonable amount of US assistance could achieve the desired purpose of political and economic stabilization.

2. The military advantage in the civil war is shifting to the Chinese Communists, who for several months have been demonstrating that they possess the strategic initiative. The military potential of the Nationalist forces has been seriously weakened by attrition of trained manpower, munitions and materiel; the present extensive military commitments have

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almost exhausted Nationalist reserves. The forces of the National Government in Manchuria are in a precarious position. The larger groupings of Nationalist troops in North China now face increased threats to their communications, as a consequence of recent Communist thrusts southward which have established three new base areas in Central China north of the Yangtze. The National Government has little reserve troop strength with which to oppose a continuation of such Communist thrusts in Central and South China, operations which appear to be within Communist capabilities.

3. Deteriorating economic conditions are exerting a cumulative impact on the political structure of the National Government. While it is true that China's economy, predominantly agrarian, is not susceptible to sudden or complete paralysis, nevertheless there is a real danger that inflation may assume runaway proportions and quickly lead to a virtually complete collapse of the national currency. Such a collapse undoubtedly would seriously disrupt the economic activities of China's important coastal cities; more significantly it would probably produce a political crisis of the first magnitude and deprive the National Government of the means of providing adequate financial or material support to the Nationalist military forces.

4. Within Nationalist territory, the Nanking Government lacks popular support, and the prestige of Chiang Kai-shek has greatly diminished. Unless in the near future he demonstrates again a capacity for revolutionary leadership, it is unlikely that he can recover the support of the great bulk of politically conscious Chinese. On the other hand, there is no alternative leader or group of leaders in sight. Furthermore, opposition to the National Government, outside the ranks of the Chinese

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Communist Party, is largely unorganized, lacking in armed strength, and therefore relatively ineffective.

5. If unchecked, present trends will lead to disintegration of the National Government's authority, the spread of warlordism, and the acceleration of tendencies toward separatism and rebellion which are now manifest along the northern frontier, in South China and in Formosa. Such political disintegration would facilitate the extension of Chinese Communist influence into areas where it is now excluded or represented only by underground groups. As a last-resort alternative to disintegration, the National Government may seek a compromise settlement of its conflict with the Chinese Communists. But it is inconceivable that the Chinese Communists would accede to such a settlement except on terms which would give them a dominating position in the Government. In the case of either disintegration or compromise, however, it is probable that acute political and economic disorganization will prevail in China for several years, preventing an effective consolidation of Communist control.

6. Continuing deterioration in the National Government's position also may cause traditional Chinese cooperation with the US on international issues to waver, inasmuch as Nanking would be inclined to adhere to a course of opportunism so as to avoid direct conflict with the USSR.

7. In the Chinese civil war, the USSR thus far has refrained from overt material assistance to the Chinese Communists and, in accordance with the Sino-Soviet Treaty of 1945, continues to recognize the National Government as sovereign in China. It is apparent, nevertheless, that Soviet sympathies lie with the Chinese Communists who, because of their

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ideological affinity with Soviet Communists, are in effect an instrument for the extension of Soviet influence. So long as conditions in China continue to deteriorate according to the present pattern, which is favorable to the Chinese Communists, the USSR is expected to refrain from open intervention. On the other hand, should US aid be provided to the National Government, the USSR might adopt a more active policy vis-a-vis China. To the extent that US assistance tended to promote the stability of the National Government, such aid would in all probability be countered by intensified activity on the part of the USSR both to further separatist developments along China's northern frontier and to strengthen and encourage the Chinese Communists. In the resultant ascending spiral of support and counter-support by the US and the USSR, the advantage both in terms of cost and effectiveness of aid would lie with the USSR, largely because of the vitality of the Chinese Communist movement and the favorable geographic position of the USSR. Such a course of events would also increase the possibility of a direct clash of interests in China between the US and the USSR.

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